

Reshaping International Oil Companies' Response Mechanism to Deal with the Spectre of Resource Nationalism

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I. Introduction

Resource nationalism is building momentum across the oil-rich countries. A resource nationalism is a policy that emerged in the 20th century, the era of oil and decolonization (Sarsenbayev, 2011). However, the recent wave of resource nationalism has led to a renewed discussion among researchers, policy makers, and various stakeholders. The oil-rich nations' governments are consolidating ownership over strategically important oil resources (Kretzschmar et al., 2010). A recent Ernst and Young (2011) report has flagged the increasing spectre of resource nationalism as the number-one risk facing mining industries.

Resource nationalism is initiated by an oil-rich nation to guarantee more equitable sharing of the profits of the petroleum sector. Several researchers (e.g., Stanislaw, 2008; Click and Weiner, 2010) contend that resource nationalism broadly refers to state control or dominance of energy resources, and the resultant potential to use this power for political and economic purposes, including relationships with IOCs. Due to resource nationalism, today's largest IOCs, led by ExxonMobil, Chevron, BP and Royal Dutch Shell, produce just 10% of the world's oil and gas and hold about 3% of its reserves (Bremmer, 2008). Resource nationalism has witnessed itself in different forms and shapes, ranging from imposing windfall profit taxes – as has been the case in the UK- to expropriating OICs – as has been the case of Conoco-Phillips and ExxonMobil in Venezuela.

The many and varied reasons for the resource nationalism - the continuing high prices for crude oil, robust demand, the increasing bargaining power of national oil companies (NOCs), the nationalist forces in the host governments - have triggered policy responses in the oil-endowed countries. Many reasons for resource nationalism are as follows.

- The key factor that drives resource nationalism in the oil industry is exorbitantly high oil prices. The oil-rich nations have increased tax so as to seek a larger share of the profits of the oil price boom. Since 2002, the price of a barrel of oil on the world market has increased from a low of \$17.10 per barrel to a record \$146 per barrel in July 2008 (Maloney, 2008).
- Resource nationalism is associated with 'obsolescing bargain' (Stevens, 2008; Maniruzzaman, 2009). The bargaining power shifts from IOCs to the oil rich nation after most investment costs have been

sunk and a development phase is about to complete. At this stage, the host government tries to increase its fiscal take by pushing to change the terms of the original contract.

- Hostile political climate in many oil exporting states is also identified as reason for increased resource nationalism trend (Vivoda, 2009). As a result, there is a rise in the concept of 'permanent sovereignty' over natural resources (Ward, 2009). Resonating with this, Click and Weiner (2010) state that at the heart of resource nationalism a government intervenes in its country's oil resources to protect or enhance its national sovereignty.
- The demand for oil is skyrocketing largely because of rising consumption in the emerging economies (e.g., China and India), which have vast populations only beginning to climb the automobile ladder.

Resource nationalism is also treated as a risk factor for international oil companies (IOCs) as it leads to disputes with host governments. Such a policy is a legitimate right for sovereign nations. What matters is how resource nationalism is applied - which has emerged as a major challenge to international oil companies (IOCs). The wave of resource nationalism leads to various disputes between the oil rich countries and IOCs. The IOCs have to effectively address the serious issues caused by the resurgence in resource nationalism. The following section will discuss the way in which the major IOCs should shape themselves in order to tackle the resource nationalism challenge.

2. Measures to responds to the resource nationalism

The rule of law to protect the interest of IOCs appears to be an evolving one which is often associated with changing geo-political environment. The IOCs could threaten legal actions against the governments. That is, many IOCs may be tempted to resist state intervention as done by Conoco-Phillips and ExxonMobil. However, the rule of law cannot always be a perfect protective shield in a crisis situation. Since resource nationalism policy seems to stay in resource-rich countries, IOCs have no choice but to accept the sovereign right of resource-endowed countries to establish a stronger participation in the oil industries. In this current geo-political contexts, the IOCs need to act with respect, and show an understanding of historical, cultural and political dynamics of a host country. In stressing the importance of managing the risks of resource nationalism, IOCs should come up with robust responsible and sustainable programs to reduce perceived injustices over profit sharing. IOCs should give special attention to the following measures.

Allowing host government participation in the stake. The IOCs' equity participation in the oil project with the host government is worth considering for the purpose of avoiding the risk of resource nationalism (Stevens, 2009). In the wave of resource nationalism, the host country's ownership in such project could prove to be a shield against the unilateral action by the host government, lest the project should be unprofitable and the action potentially dangerous for the project (Maniruzzaman, 2009). Due to its participation in the equity, the oil rich nation will have some interest in the stake and thereby tries to guard it by all means.

Engaging in social activities. Corporate Social Responsibility (CSR) is a business opportunity rather than a business cost (Porter and Kramer, 2006). The IOCs have corporate responsibility to deliver to the society where they operate. IOCs' meaningful engagement with the host society may provide an opportunity to develop much needed mutual trust and long-term co-operation between them (Sachs, 2007). Broadly speaking, IOCs have duties for climate change, sustainable development, and socially responsible investment (Blindheim, 2008). They need to consider social, health and human rights issues. The OICs should be willing to embrace in line with its wider CSR initiatives through its contribution to local healthcare, education, and employment. This may, in practice, also mitigate the risk. These aspects could be factored into the IOC's CSR programme, which could, in turn, be used to avoid risk and dispute (Kytte and Ruggie, 2005, p. 113).

CSR is now the reality that IOCs are facing. Hence CSR must be handled professionally. From the pragmatic point of view, if business needs to gain any reputation and make any impression on society for their long-term interest, business needs to engage meaningfully with society, which is more than just show-case philanthropy, public relations and glossy CSR reporting (Maniruzzaman, 2009). It is more important than ever for the OICs to become much more mindful of the importance of good public relations. They should communicate effectively to the local community about the contributions they are making and the benefits the investment is bringing to the host state. In the long run, companies can benefit from community engagement and investment.

Ensuring good practice of corporate governance. The practice of corporate governance can ensure the protection of the interests of the concerned stakeholders (i.e., the host government, the shareholders, the host community, NGOs, etc.). At the same time, it may be a boon for the security of IOCs' investment. Parallel to this, Wells and Ahmed (2007) argue that ultimate security for IOCs lies in how a particular oil project is perceived by its host government, the local press, labor union, and nongovernmental organizations. Many of the misunderstandings between IOCs and their stakeholders arise due to the lack of transparency process in terms of the IOCs' operations in the host country. Various forms of transparency have often been suggested by scholars (e.g., Maniruzzaman, 2009; Reid and Toffel, 2008; Sachs, 2007). The IOCs should incorporate representatives of various stakeholders in the project-planning, decision-making and negotiating processes (Maniruzzaman, 2009). In this regard, Sachs (2007) suggests that all contractual terms and all payments between host country and the IOCs should be fully disclosed. The good practice of corporate governance will help to enhance fair dealings between IOCs and corporate stakeholders. In an age of rising shareholder activism and engagement fuelled by the global financial crises, corporate governance can prevent disputes among various stakeholders (Richardson, 2008; Reid and Toffel, 2008).

Maintaining good relation with host government. It is not surprising that many IOCs are now-a-days making an effort to engage meaningfully with the host government in different degrees for a better relationship for their future prospect (Zahraa and Shehu, 2006). They should be more sensitive in their approach to dealing with such governments. After extensive negotiations with governments, IOCs could reach an agreement/ a compromise. There has been cyclical change in the relative balance of power between host states and their NOCs and major IOCs (Stevens, 2008). The IOCs should not upset host governments in getting preferential treatment from the resource-rich nations. If they continue to cooperate with the host

governments in social works, there is possibility that the major IOCs will secure favourable deals in future. Where good relations have been fostered with host governments, this will help IOCs to get preferential treatment and greater scope for negotiation of the terms of any new requirements affecting their investment from the oil-rich nations.

In some cases, it may be advisable to IOCs to accept revised terms if this helps sustain relationships of the host governments, which hopefully should protect their investments. IOCs should be aware of the importance of continuous engagement between host government and them as a protection measure. They would do more to preserve their long term interests by engaging with governments. Otherwise, IOCs will risk of jeopardizing their future growth if they fail to work with oil-rich governments towards their mutual best interests.

Forming strategic alliances with research based universities. Resource nationalism has come to stay in resource-rich countries. The debate over resource nationalism severely limits areas open to IOC investment and has had negative effects on their operations. So the IOCs should find other alternative energy rather than focusing exclusively on fossil fuels. For example, British Petroleum abbreviates its name to *BP* and announces that it stands for “*beyond petroleum*”. The IOCs should make significant investment in research and development (R&D) so as to come up with alternative and renewable fuels. With this aim in mind, they need to form strategic alliances with research based universities. In the meantime, British Petroleum has spent \$8 billion for R&D in alternative and renewable fuels and agreed to spend half a billion dollars to create the Energy Biosciences Institute at University of California Berkeley to study biofuels. Similarly, Chevron, meanwhile, recently formed an alliance with a Silicon Valley startup to produce fuel from algae (Buchanan and Anwar, 2009).

Administering research for early detection of grievances. In the case of oil projects there should be mechanisms in place that would work like radar for early detection of grievances and also prevention mechanisms. In this respect, IOCs need to be proactive and understand the cultural milieu in which they operate (Maniruzzaman, 2009). Every dispute has a gestation period to evolve, or there may be an abrupt outbreak. Whatever is the nature of grievances or disputes, the IOCs can administer regular survey with the help of local NGOs to identify grievances or disputes of other stakeholders. The possible results of the survey could act as early detection mechanism so that the IOCs can determine what to do in the situation. The approach would be thus to take action in the circumstances as the well-prepared and to take decision as the well-informed. Efforts must be made to resolve any problem amicably between the parties involved before it escalates into a dispute.

3. Conclusion

The oil-rich countries treat IOCs as their prime target to control the oil resources. The IOCs have been unsuccessful in bargaining with their major actors, such oil-rich countries, oil-importing countries, and NOCs. There is no sign that resource nationalism will go away. The tools mentioned could contribute to the dispute avoidance, and help the parties continue their relationship. It is time to

reshape the IOC's behaviour and activities in the wave of resource nationalism for their survival. However, the paper ignores other resources such mining and other mineral resources in its discussion. Furthermore, it did not take into account host governments' perspective in resource nationalism. Future research may incorporate other sectors of resources industry from various stakeholders' (e.g., government) perspective to get a holistic picture of the cause and effect of resource nationalism.

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